



San Francisco International Airport

MEMORANDUM

October 17, 2023

TO: AIRPORT COMMISSION
Hon. Malcolm Yeung, President
Hon. Everett A. Hewlett, Jr., Vice President
Hon. Jane Natoli
Hon. Jose F. Almanza
Hon. Mark Buell

23-0251
OCT 17 2023

FROM: Airport Director

SUBJECT: COVID-19 Lease Extension Program for Rylo Management, LLC dba Farley's Community Café, Terminal 3 Boarding Area F Café Lease, A Small Business Enterprise Set-Aside, Lease No. 19-0054

DIRECTOR'S RECOMMENDATION: ADOPT RESOLUTION (1) AUTHORIZING THE AIRPORT DIRECTOR TO IMPLEMENT THE COVID-19 LEASE EXTENSION PROGRAM FOR RYLO MANAGEMENT, LLC DBA FARLEY'S COMMUNITY CAFÉ BY EXECUTING AN AMENDMENT EXTENDING ITS LEASE TERM BY TWO YEARS AND FOUR MONTHS, TO ALLOW FOR FINANCIAL RECOVERY IN RESPONSE TO THE DEVASTATING IMPACT OF THE COVID-19 PANDEMIC; AND (2) DIRECTING THE COMMISSION SECRETARY TO OBTAIN APPROVAL OF THE AMENDMENT FROM THE BOARD OF SUPERVISORS UNDER SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

Staff recommends that the Airport Commission (Commission) authorize the Airport Director to execute a two year and four month lease extension for Rylo Management, LLC dba Farley's Community Café, Terminal 3 Boarding Area F Café Lease, A Small Business Enterprise Set-Aside, Lease No. 19-0054 (Tenant) for its operations in Terminal 3 Boarding Area F as part of the San Francisco International Airport's (SFO or Airport) COVID-19 Lease Extension Program, first approved by the Commission for most tenants on September 5, 2023 by Resolution No. 23-0244. Tenant was not included in that initial package of lease amendments under the Program pending a review of their compliance with the requirements of the Airport's Labor Peace/Card Check Rule. Tenant has been found to be in compliance and otherwise meets the eligibility criteria for the COVID-19 Lease Extension Program.

Background

In response to the dramatic decline of passenger activity following the March 11, 2020 COVID-19 pandemic declaration by the World Health Organization, the Airport undertook efforts to manage and mitigate its tenants' financial losses. The number of restaurants, stores, and

THIS PRINT COVERS CALENDAR ITEM NO. 4

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MALCOLM YEUNG EVERETT A. HEWLETT, JR. JANE NATOLI JOSE F. ALMANZA MARK BUELL IVAR C. SATERO
MAYOR PRESIDENT VICE PRESIDENT AIRPORT DIRECTOR

passenger services locations operational at SFO went from 149 to 27 in March 2020. Many concession locations were required to be closed under stay-at-home orders and the designation by public health authorities of essential and non-essential businesses. Enplanement activity for calendar year 2020 remained depressed, down by 71.4% compared to fiscal year 2019, the last fiscal year before the pandemic.

On October 6, 2020, by Resolution No. 20-0180, the Commission authorized Staff to implement its COVID-19 Emergency Rent Relief Program, which granted rent relief to concessionaires valued at \$21.8 million. The Airport received \$254.8 million in funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the Federal Aviation Administration (FAA) directed airports to use a portion of the CARES Act funds for temporary rent abatements and minimum annual guarantee (MAG) waivers. The \$21.8 million funded: (1) MAG waivers for three months until the MAGs were suspended contractually in accordance with the “Severe Decline in Enplanements” provision in the concession leases; (2) two months of no rent or fees; and (3) seven months of waived storage rent, marketing, infrastructure, food court cleaning, and refuse fees.

On March 2, 2021, by Resolution No. 21-0047, the Commission authorized the acceptance and allocation of grant monies from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). Of the \$46,543,901 allocated to the Airport, the FAA stipulated that \$5,949,587 was to be allocated among the concession tenants for rent and MAG relief. This amount equated to approximately two months of rent relief for most concessionaires. The Airport allocated such funds in accordance with the law.

On July 20, 2021, by Resolution No. 21-0154, the Commission authorized the acceptance and allocation of American Rescue Plan Act (ARPA) funds totaling \$192,813,293. A portion of the ARPA funding, \$23,798,350, was distributed to eligible concession tenants in the form of rent and MAG relief. The ARPA funding equated to approximately six months of rent relief for food and beverage, retail, and service concession tenants. Pursuant to the federal guidelines under ARPA, the funds were not available to rental car concession tenants.

These programs helped concession tenants get through the worst of the pandemic. In addition to the rent waivers and credits offered under these programs, Airport staff worked closely with concession tenants to phase the reopening of individual locations. This collaborative effort supported the financial viability of tenants. Fiscal year 2023 enplanement activity is down 18.2% compared to fiscal year 2019. All concession locations have reopened.

On September 5, 2023, by Resolution No. 23-0244, the Airport Commission authorized the COVID-19 Lease Extension Program which approved lease term extensions for certain food and beverage, retail, and service concessionaires who met certain criteria for eligibility, including having had an active lease during the COVID-19 pandemic and currently being in operation. The length of lease extensions offered was up to three-and-one-half years, relating generally to the period during which enplanement passenger activity was classified as a “Severe Decline in Enplanements” for most tenants. The three-and-one-half-year period was established using the period between March 2020 and August 2023 (Pandemic Period). Tenant was eligible for a lease extension, but was not among the 88 leases identified for inclusion in the initial approval of the

COVID-19 Lease Extension Program due to concerns expressed about its compliance with the requirements of the Airport's Labor Peace/Card Check Rule (Rule). The Airport is satisfied that Tenant has complied with its obligations under the Rule, has had an active lease for two years and four months during the Pandemic Period, and is recommended for a lease term extension of the same length.

The lease extension requested in this memorandum will support Tenant by allowing for a longer term for the amortization of investment costs, providing more confidence for its lenders, and, in concept, will allow Tenant to recoup business losses in the latter part of its lease when enplanements are anticipated to be higher.

As a condition to receiving the lease extension under the COVID-19 Lease Extension Program, Tenant must agree in the amendment to comply with: (i) updated City and County of San Francisco and other governmental contracting requirements, (ii) new Airport Rule 12.3 (Prevailing Wage Requirements – Covered Tenant Construction), and (iii) revised Rule 12.1 (Labor Peace/Card Check Rule). If the Airport must terminate the Lease early, the term added under the COVID-19 Lease Extension Program will not be utilized in calculating a buy-out of unamortized hard construction costs if one is determined to be appropriate.

Proposal

Extend the Lease term by two years and four months, provided Tenant is current with deposits, insurance, and accounts receivable obligations under its Lease.

Recommendation

I recommend the Commission adopt the accompanying Resolution (1) authorizing the Airport Director to implement the COVID-19 Lease Extension Program for Rylo Management, LLC dba Farley's Community Café by executing a lease amendment extending the lease term, consistent with the terms outlined in this memorandum, and (2) directing the Commission Secretary to request the approval of the lease amendment from the San Francisco Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco.



Ivar C. Satero
Airport Director

Prepared by: Kevin Bumen
Chief Financial and Commercial Officer

Attachment

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 23-0251

COVID-19 LEASE EXTENSION PROGRAM FOR RYLO MANAGEMENT, LLC DBA FARLEY'S COMMUNITY CAFÉ, TERMINAL 3 BOARDING AREA F CAFÉ LEASE, A SMALL BUSINESS ENTERPRISE SET-ASIDE, LEASE NO. 19-0054

- WHEREAS, flight and passenger activity immediately and dramatically declined after the March 11, 2020 COVID-19 pandemic declaration by the World Health Organization; and
- WHEREAS, on March 13, 2020, President Trump declared COVID-19 a national emergency, and on March 17, 2020, a “Shelter-In-Place” order was issued by public health officials from six Bay Area counties, including San Francisco and San Mateo; and
- WHEREAS, the number of food and beverage, retail, and service concession locations in operation at the Airport went from 149 to 27 within days of the Shelter-in-Place order; and
- WHEREAS, all concession locations have opened, however, passenger enplanement activity is still down 18.2% from pre-pandemic levels in 2019 as of May 2023; and
- WHEREAS, while concessionaires have been supported by federal stimulus and grant programs, there is still a multi-year recovery period planned for the return of passenger activity; and
- WHEREAS, most concessionaires were awarded leases, in part, based upon rent they would pay during their lease terms and made significant investments in tenant build-out and have ongoing operational costs; and
- WHEREAS, the business deals upon which the rents were established and the financial offers made by the tenants were based upon a projected pre-pandemic level of enplanements; and
- WHEREAS, while Minimum Annual Guarantees were suspended based upon the “Severe Decline in Enplanement” lease provision in the concession leases (with some remaining suspended to date), tenant re-openings have been phased, and the federal stimulus programs have all provided relief in the near term, the expected four- to five-year recovery period places all leases in a different financial position than what was originally underwritten by tenants; and

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WHEREAS, on September 5, 2023, by Resolution No. 23-0244, the Airport Commission authorized the Airport Director to implement the COVID-19 Lease Extension Program (Program) by executing lease amendments extending the term for certain food and beverage, retail, and service concession tenants that had an active lease during the COVID-19 pandemic or opened during the pandemic and which are currently operating; and

WHEREAS, the lease extensions provided under the Program will support concession tenants by allowing for a longer term for the amortization of investment costs, providing more confidence for their lenders, and, in concept, allow tenants to recoup business losses in the latter part of their leases when enplanements are anticipated to be higher; and

WHEREAS, Rylo Management, LLC dba Farley's Community Café, Terminal 3 Boarding Area F Café Lease, A Small Business Enterprise Set-Aside, Lease No. 19-0054 (Tenant) was eligible for a lease extension under the Program, but was not among the 88 leases identified for inclusion in the initial request for approval of the Program due to concerns expressed about Tenant's compliance with the requirements of the Airport's Labor Peace/Card Check Rule (Rule); and

WHEREAS, the Airport is satisfied that Tenant has complied with its obligations under the Rule and now recommends that Tenant receive a lease term extension under the Program; now, therefore, be it

RESOLVED, that this Commission hereby authorizes the Airport Director to implement the COVID-19 Lease Extension Program for Rylo Management, LLC dba Farley's Community Café by executing a lease amendment extending the term of the lease for two years and four months, and otherwise consistent with the terms and conditions of the COVID-19 Lease Extension Program first authorized by this Commission on September 5, 2023, and in the Airport Director's memorandum accompanying this Resolution; and, be it further

RESOLVED, that this Commission directs the Commission Secretary to seek approval for the lease amendment with Rylo Management, LLC dba Farley's Community Café from the San Francisco Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco.

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I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of _____

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Secretary